

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 AGR-20 DRC-01 /151 W
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R 151900Z MAY 74

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 0000

INFO AMEMBASSY GUATEMALA

LIMITED OFFICIAL USE TEGUCIGALPA 2071

PASS COMMERCE (BIC/OIM/HONDURAS)

GUATEMALA ALSO FOR AGATT

E.O. 11652: N/A

TAGS: BGEN, EMIN, ELAB, ENRG, EIND, EAGR, HO

SUBJECT: VISIT TO SAN PEDRO SULA: BUSINESS CLIMATE,
SUGAR, LUMBER, TEXACO

REF: TEGUCIGALPA 2058

TEGUCIGALPA 2053

STATE 082417

TEGUCIGALPA 1779

STATE 096503

STATE 092672

TEGUCIGALPA 1475

TEGUCIGALPA 2067

TEGUCIGALPA 1188

TEGUCIGALPA 1099

SUMMARY: COMATT VISITED SAN PEDRO SULA MAY 8-11 AND FOLLOWING
ARE HIGHLIGHTS OF CONVERSATIONS HELD ON BUSINESS CLIMATE,
SUGAR, LUMBER, AND PETROLEUM. END SUMMARY

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1. BUSINESS CLIMATE: MERCHANTS AND BANKERS CONTACTED EXPRESSED VIEW THAT BUSINESS CLIMATE IN GENERAL HAS BEEN "BAD" RECENTLY BUT IS GETTING BETTER. CHANGE FOR BETTER NOTED DURING LAST COUPLE MONTHS, ESPECIALLY REGARDING ATTITUDE OF GOH TOWARD PRIVATE SECTOR (E.G., GOH EFFORTS TO HAVE "DIALOGUE" WITH PRIVATE SECTOR LEADERS, CONSULTATION OF PRIVATE SECTOR OVER SUCH MEASURES AS MINIMUM WAGE LAW). ONE BANKER EXPECTS 1974 TO BE GOOD YEAR FOR INVESTMENT EVEN THOUGH INTERNAL CREDIT TIGHT DUE TO CENTRAL BANK ANTI-INFLATION POLICIES; CENTRAL BANK, HOWEVER, HAS BEEN LIBERAL REGARDING BRINGING CAPITAL INTO COUNTRY FROM OUTSIDE SOURCES. MAJOR INVESTMENTS PLANNED INCLUDE:: NEW CEMENT PLANT LOCATED NEAR OMOA (\$50 MILLION); CONSTRUCTION OF THREE NEW HOTELS (\$7 MILLION; SEE TEGUCIGALPA 2058); PURCHASE OF GALVANIZING MACHINERY BY ROLLING MILL (\$1 MILLION); PURCHASE OF NEW TANNERY EQUIPMENT (\$400,00); MAJOR EXPANSION OF THE SANTA MATILDE SUGAR MILL (\$3 MILLION) AND PURCHASE OF A USED SUGAR MILL IN PUERTO RICO TO BE DISMANTLED AND SET UP NEAR SAN PEDRO SULA (\$7 MILLION). ONLY INVESTMENT LISTED ABOVE WHICH IS NOT BEING CARRIED OUT PRINCIPALLY BY HONDURANS IS CEMENT PLANT (SEE TEGUCIGALPA 2053). RUMORS OF FUTURE JAPANESE INVESTMENTS IN SUGAR (IN SOUTHERN HONDURAN) AND A FISH MEAL PLANT (NEAR TRUJILLO) ALSO HEARD.

2. SUGAR: (A). DONALDO SUAZO TOME, MANAGER HONDURAN SUGAR COMPANY AND SPOKESMAN FOR SUGAR INDUSTRY, SAID HE HAD TALKED WITH CARLOS GALLARDO, PRESIDENT OF SUGAR COMPANY UNION, REGARDING PROBLEM DESCRIBED STATE 082417, TEGUCIGALPA 1779, EL AL. ACCORDING TO SUAZO, AFTER HE HAD EXPLAINED FEATURES OF THE U.S. QUOTA SYSTEM TO GALLARDO, THE LATTER RESPONDED THAT APPARENTLY THE COMPANY'S POSITION CORRECT BUT THAT THE COULD NOT TAKE "RESPONSIBILITY UPON HIMSELF TO THROW OUT SOMETHING WHICH MCLELLAN SAYS RIGHTFULLY BELONGS TO THE UNION." SUAZO TOLD COMATT HE PLANS TO MEETING WITH CELEO GONZALEZ, WHOM HE TERMED MORE RESPONSIBLE, AFTER RECEIVING FROM EMBASSY INFORMATION CONTAINED IN STATE 096503. BELIEVES IT ESSENTIAL CONVINCE MCLELLAN THAT HE MISTAKEN IN DETAILS OF AGREEMENT. (B). REGARDING HONDURAN SUGAR SHIPMENTS TO U.S., SUAZO SAID 5,000 TONS NOW IN PUERTO CORTES READY FOR SHIPMENT IN JUNE. THIS SHIPMENT TO U.S. IS AN EFFORT TO SHOW HONDURAN DESIRE TO LIMITED OFFICIAL USE

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CONTINUE IN U.S. QUOTA SYSTEM, DESPITE DROUGHT PROBLEMS AND NEED TO IMPORT FROM CUBA LAST YEAR. SUAZO POINTED OUT SERIOUSNESS OF HONDURAN COMMITMENT TO U.S. MARKET EXPLAINING THAT HONDURAS STANDS TO LOSE \$300,00-\$400,000 BY NOT SELLING THIS SUGAR IN WORLD MARKET AND WOULD ALSO NOT HAVE TO WORRY ABOUT POTENTIAL BOYCOTT ARRANGED BY MCLELLAN IF SUGAR SOLD IN WORLD MARKET. SUAZO ALSO VOLUNTEERED THAT HE HAD HEARD ABOUT RECOMMENDATION OF HOUSE SUBCOMMITTEE RE QUOTA FOR HONDURAS

IN NEW SUGAR ACT (STATE 092672) AND THAT HE FOUND PORPOSAL NOT UPSETTING AS HONDURAS ADMITTEDLY HAD NOT HAD A GOOD RECORD IN LAST FEW YEARS; IF COUNTRY CAN REESTABLISH A GOOD RECORD PERHAPS WILL RECEIVE NORMAL QUOTA POSITION IN FUTURE, HE ADDED.

3. LUMBER: MEETING WITH ED GATLIN OF MADERERA YODECO (EXPORTER) DISCLOSED THAT COMPANY CLOSING OPERATIONS AND GATLIN MOVING TO NICARAGUA WHERE HE HAS OTHER LUMBER INTERESTS (SEE TEGUCIGALPA 1475). GATLIN EXPLAINED HIS UNWILLINGNESS TO PERFORM AS A "SERVICE COMPANY" FOR COHDEFOR AS HE UNWILLING ACCEPT TERMS OF SERVICE CONTRACT (E.G., RESPONSIBILITY FOR ANY LOSS) AND VIEWS MARGIN OF PROFIT FOR SUCH COMPANIES AS TOO SMALL. HE HAS, HOWEVER, AGREED TO ARRANGEMENT WHEREBY COHDEFOR USING THE YODECO FACILITIES FOR TWO MONTHS ENDING JUNE 15; YODECO TO MAKE NO PROFIT FROM ARRANGEMENT AND HAS NO RESPONSIBILITY FOR LOSS AS IN SERVICE CONTRACT. ARRANGEMENT MADE TO FACILITATE DISPOSAL OF YODECO LUMBER INVENTORY ACCORDING TO GATLIN. YODECO NOW LIQUIDATING ITS ASSETS AT YARD AND HAS OFFERED SELL ITS NEARLY NEW EQUIPMENT TO COHDEFOR AT HALF PRICE; COHDEFOR HAS PURCHASED COMPANY'S 2.7 MILLION BOARD FEET OF INVENTORY ALTHOUGH, ACCORDING TO GATLIN, ONLY PAID PGREN LUMBER PRICE DESPITE FACT THE LUMBER HAD BEEN DRIED AND DRESSED. LIQUIDATION TO BE COMPLETED AROUND END OF JUNE. GATLIN ESTIMATED YODECO INVESTMENT AT \$2 MILLION: HALF IN MILL AND HALF IN TIMBERLAND (ABOUT 50,000 ACRES). ESTIMATES THAT LIQUIDATION OF MILL WILL RESULT IN LOSS OF ABOUT \$500,000. HOPES TO SELL TIMBERLAND AT FAIR PRICE BUT MAY RETAIN FOR A WHILE. GATLIN DOES NOT SEEM TO VIEW HIS PROBLEM VIS-A-VIS COHDEFOR AND DECREE 103 AS ONE FROM WHICH USG CAN OR SHOULD EXTRICATE HIM.

4. TEXACO: RE POSSIBLE STRIKE AT REFINERY (SEE TEGUCIGALPA 2067 FOR SUBSEQUENT DEVELOPMENTS) TEXACO MANAGER MCDONALD REPORTED COMPANY HAD HERD UNION HAD DISCUSSED OCCUPYING LIMITED OFFICIAL USE

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THE REFINERY TO DRAMATIZE ITS CASE, ALTHOUGH PLANT WOULD BE KEPT IN OPERATION SO AS NOT TO CAUSE SERIOUS DAMAGE TO EQUIPMENT. MCDONALD EXPRESSED DISSATISFACTION WITH LABOR CODE "MEDIATION, CONCILIATION" PROCEDURES AS "CONCILIATORS DO NOT REALLY TRY TO CONCILATE," BUT MERELY REGISTER THE DIFFERENCES SEPARATING THE TWO SIDES. RE PETROLEUM PRICES, NEXT INCREASE SHCHEDULED FOR MAY 16 AND COMPANY AWAITING WORD FROM MINISTRY OF ECONOMY TO BEGIN DISCUSSIONS ON AMOUNTS. GROUND RULES FOR CALCULATING INCREASES WELL KNOWN BUT "GOH CHANGED THEM LAST TIME; MAY DO IT AGAIN" (SEE TEGUCIGALPA 1188 AND 1099).
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BUSINESSMEN, WAGES, CENTRAL BANK, CONSTRUCTION, FOREIGN COMMITMENTS, MEETING REPORTS, INVESTMENTS, HOTEL ACCOMMODATIONS, INDUSTRIAL PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GarlanWA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TEGUCI02071
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740120-0228
From: TEGUCIGALPA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740544/aaaabnfk.tel
Line Count: 166
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: TEGUCIGALPA 2058
Review Action: RELEASED, APPROVED
Review Authority: GarlanWA
Review Comment: n/a
Review Content Flags:
Review Date: 16 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 SEP 2002 by kellew0>; APPROVED <19 FEB 2003 by GarlanWA>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: VISIT TO SAN PEDRO SULA: BUSINESS CLIMATE, SUGAR, LUMBER, TEXACO
TAGS: BGEN, EMIN, ELAB, ENRG, EIND, EAGR, HO
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005